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October 10, 2006

The Honorable David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Walker:

As you are aware, the Government Reform Committee and its Subcommittee on Energy and Resources are investigating why the Minerals Management Service of the Interior Department excluded price thresholds from deepwater leases entered between the Department and oil and gas companies in 1998 and 1999. The Government Accountability Office (GAO) estimates that the missing price thresholds have cost the American people nearly \$2 billion to date and will cost nearly \$8 billion more over the life of the leases. Because of the large amount of money involved, a natural follow up to this investigation is an overall examination of the effectiveness and accuracy of the royalty collection system managed by the Minerals Management Service.

We request that the Government Accountability Office analyze the accuracy of royalties collected on oil, condensate, and natural gas produced under leases of federal and Indian lands. Specifically, we request that GAO:

1. Review the extent to which existing policies and procedures for monitoring, verifying, and reporting oil, condensate, and natural gas production on federal and Indian lands are sufficient to accurately collect royalties due the federal government.
2. Identify any policies, procedures, and engineering practices employed by the federal government and lease operators that could lead to under or over-reporting of oil, condensate, and natural gas production.

3. Identify potential policy and engineering solutions to weaknesses identified in the previous questions based upon best practices employed in the United States or other countries.
4. Analyze the cost and effectiveness of information technology systems developed and employed by the Minerals Management Service to gather production data and conduct compliance audits. This analysis should include:
 - a. A review of contracts entered into by the Minerals Management Service and other parties to develop information technology systems, whether these systems met the specifications required by the contract, and, if applicable, why systems did not meet any specifications.
 - b. A comparison of the effectiveness of national systems to collect such data and other systems employed by state and territorial auditing entities, if such systems exist.
 - c. A review of the extent to which information technology systems developed by MMS contain automated functions that enable auditors to systematically analyze production volumes reported by lessees with other data bases containing similar information.
5. Analyze the compliance and enforcement efforts of the Minerals Management Service related to royalty collection, including a comparison of the frequency of enforcement actions, such as issue and demand letters, over time.

Thank you for your attention to these questions and we look forward to your results.
Please direct questions to Larry Brady, Subcommittee Staff Director at (202) 225-6427.

Sincerely,

A handwritten signature in black ink, appearing to read 'Darrell Issa', with a stylized, cursive script.

Darrell Issa, Chairman
Subcommittee on Energy and Resources